

Remarks to the House Subcommittee on Financial Institutions and Consumer Credit

Frank Adams
President
Southern Appalachian Center for Cooperative Ownership
Asheville, North Carolina

Members of the Subcommittee:

Last Tuesday, June 3, La-Z-Boy Inc. announced job cuts at manufacturing plants in Morristown, Tennessee and Monroe, North Carolina totaling 480 persons.

For the thousands of nervous North Carolinian's, and thousands of others elsewhere who still have jobs in the forest products industry, the announcement by La-Z-Boy is just the latest permanent lay-off notice they hear about, but not the last they expect.

My remarks focus on North Carolina, but the need for a reliable, dedicated capital source to help arrest industrial job loss is not specific to North Carolina.

Some 140,000 persons are employed in North Carolina's forest products industry, the state's second largest for-profit sector workforce, and \$20 billion dollar a year business.

But furniture and fixture imports, mostly from Asia, along with paper and allied products, mostly from South America, are hammering the state's forest products businesses, leaving apprehensive employees constantly wondering if their job is next to go.

The state stands to lose these jobs and it's prominence in the forest products industry during the next five years, according to Pete Stewart, president and CEO of Forest2Market, Inc in Charlotte, who adds, " The parallels with North Carolina's textile industry are frightening." I think all here today are aware of the fall from grace experienced by North Carolina's textile industry. [The Charlotte Observer. January 16, 2003.]

There is data to back Mr. Stewart up:

Since April 1, 1995, the dreaded termination notice has been handed to 13,740 North Carolinians-9,415 men and women making furniture and fixtures, 3,315 working in lumber yards or sawmills, and 1,010 making paper or allied products.

In Western North Carolina's 23 counties, on average, 144 men and women lose jobs every month since June 1, 2001, a total of 3,465 persons. They made livings as fallers, buckers, logging equipment operators, secretaries and bookkeepers, graders, scalers, sawyers, lumberyard workers, papermakers, or by making furniture, fixtures, molding, or picture frames. Their jobs are gone forever. [North Carolina Department of Commerce & North Carolina Employment Security Administration.]

And what happens to these men and women after being let go?

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Lori Kletzner, an economist at the University of California, Santa Cruz, as part of a large study on how American Industries were affected by import competition, found that of the half million workers who lost jobs in the forest products industry in America between 1979 and 1999, 38% could not find work again. Of those who did find jobs, 1 in 5 took pay cuts of 30% or more. [The Wall Street Journal September 20, 2002.]

Today, if you operate logging equipment in North Carolina, on average, you earn \$11.58 an hour. The average wage is \$10.88 if you are a faller or a buckler. Tractor or skidder operators average \$9.88 an hour. No job at all can destroy self-esteem; empty the wallet and the pantry. A 30% cut in an \$11.58 perhaps only empties the wallet and the pantry.

There are bright spots however.

In the face of incredible odds, some workers are buying-out their employers , becoming employee owners, and profitably re-directing their business.

Others start new firms to keep on doing what they know how to do with trees, pulp, mills, furniture, or as bookkeepers, kindly receptionists. They refuse to go unemployed, to see neither their net worth nor their self worth destroyed. They are challenging the odds mostly in rural America, thus mostly out of the national limelight-in Maine, Ohio, Virginia, North Carolina, Mississippi, Wisconsin, Minnesota, Northern California, and Southern Oregon.

In every case I know of, these women and men face identical problems-how to find the money for experienced advice about buying assets or starting a cooperative, how to define a market, how to reorganize using an Employee Stock Ownership Plan or as one of the many cooperative models, or how to find the capital to buy assets or start operation until a profit turns. But at the end of the day, capital must be made available.

With me today are two men:

One, Larry Owenby, was a paper machine back tender and chemical operator for the bankrupt Ecusta Paper Mill in Brevard, N.C. He speaks for over 600 women and men who were unable to come up with the capital they needed;

The second, Monty Payne, was a papermaker for many years but is now a regional representative for PACE International Union at 12 paper industry plants in Mississippi and Louisiana. He is leading efforts in Natchez to determine if profits can be made, and decent wages can still be made making rayon and cellulose at a mill International Paper no longer wants. He is searching for capital.

They have compelling evidence for your consideration.

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In the context then of a collapsing industry, and determined, capable people refusing to buckle under, I have two accounts from North Carolina to share briefly that underscore the importance of the Subcommittee's deliberation's today:

In 1997, Champion International Papers told employees they and the machinery they used were non-strategic assets. So were the mills they worked in to make bleachboard to be folded into milk or fruit juice cartons, and paper for mailing envelopes-2 in North Carolina and 5 scattered from Athens, Georgia to Aims, Iowa.

A handful of North Carolinians in Champion's Canton mill decided to see if they could buy the land and machines. They did, after two years of exhausting effort to find financial support for a feasibility study, to negotiate with lenders, and most importantly, to convince their neighbors that they had a common sense solution: a worker's buy-out.

Today, employees own a 40% equity stake in Blue Ridge Paper Products, Inc., headquartered in Canton, North Carolina, now the nation's second largest manufacturer of bleachboard and mailing envelopes. There are 2,100 employee owners who saved and created jobs. They are among the highest paid industrial workers left in North Carolina even after taking a 14% pay cut for 5 years to buy shares.

Then there is the effort to create jobs which is still on the drawing boards looking for capital investors, the Timber Producers' and Harvesters' Cooperative, a business that may be started in Wilkes County, North Carolina, one of the hardest hit as measured by job loss.

The workers' cooperative will start off with 16 persons full time at a living wage, with an equity stake in the firm, and each with one vote on any matter that significantly or extensively affects the business, including electing a small board of directors who, in turn, hire a manager.

These 16 persons must find 6,000 acres to start harvesting, probably requiring 100 landowners who will become owners of the cooperative, too. The owners must be willing and able to fall and haul tress in accord with high respect for the land. They must be able to bark logs, bagging that bark for mulch.

They must find uses for slab wood and haul sawdust to local industrial chicken houses. Of course, they must know how to saw the logs, then learn how to use methane from landfills to dry the timber, make tongue and groove flooring, then sell their product as flooring, or installing that flooring themselves.

If they can do these tasks, and if they can find the capital, our strictly under-estimated financial projections show these 16 individuals will have a total sales of \$5,471,029 the first year. There will be money to pay down debt, and for a small distribution of profits to the worker owners and landowners.

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And if they are able to meet or better this earnings target, and then go beyond the second and third years, then many North Carolinians hope this business will be replicated over and over, until these workers' cooperatives can be found throughout North Carolina County.

Thank you.

Frank T. Adams
President
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Asheville, North Carolina
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